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## RULES OF CONDUCT &amp; DISTRIBUTOR POLICIES

**HERBALIFE INTERNATIONAL****Introduction**

These Rules of Conduct & Distributor Policies have been established for your protection. They represent the code of ethics by which all Herbalife Distributors must operate. We encourage you to read and understand them so you are fully aware not only of your own obligations, but also of your rights as an Herbalife Distributor. We believe Herbalife's products and marketing plan are the best in the industry. We also believe in our Distributors and in supporting them by working together to uphold the highest possible ethical standards. We are committed to maintaining the integrity of Herbalife, its Sales and Marketing Plan and its global distribution network of independent Distributors. In its sole and absolute discretion, Herbalife may impose any remedy or sanction it determines best addresses any breach of the Rules of Conduct & Distributor Policies. Herbalife also reserves the right in its absolute discretion to waive wholly or partially or to pardon or forgive wholly or partially any breach of any of the rules contained in this section.

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## RULES OF CONDUCT &amp; DISTRIBUTOR POLICIES

**Rule No. 1 Becoming a Distributor and the Distributor Agreement****Rule 1-A How to Become a Distributor**

To become an Herbalife Distributor, an Applicant must be sponsored by an active, authorized Herbalife Distributor. The Applicant must fully complete and immediately submit the Application for Distributorship to Herbalife. This Application for Distributorship is only available in an official Herbalife Distributor Kit (IBP), which the Applicant must have before becoming a Distributor.

It is the responsibility of the Sponsor to make the official Herbalife Distributor Kit (IBP) available and to assure the Application for Distributorship is completed fully and accurately and is immediately submitted to Herbalife International. No Application for Distributorship will be accepted as valid unless the Applicant owns a Distributor Kit (IBP).

The Applicant officially becomes an authorized Distributor when Herbalife receives and accepts the Application for Distributorship. Herbalife reserves the right at its sole discretion, to accept or reject any Application, without having to provide justification for acceptance or rejection.

**Rule 1-B Applications from Former Distributors**

Former Distributors and/or their spouse, or other individual assisting in a Distributorship who want to re-apply to become a Distributor again, under a different sponsor, must comply with all requirements and rules for re-joining as a Distributor, including but not limited to, maintaining a minimum of one year's inactivity after resignation or non-payment of annual processing fee of the former Distributorship. Failure to comply with these rules is a serious violation of the rules and regulations of the company and will result in serious penalties, usually termination. See Rule 7-E for complete details on the requirements and rules that apply to these individuals.

**Rule 1-C Equal Opportunity**

The Herbalife business opportunity is open to people from all walks of life, regardless of sex, race, nationality, religious beliefs, political affiliations or age, as long as the Applicant is at least 18 years of age and is otherwise legally capable of entering into a contractual agreement.

**Rule 1-D Applicant's Address**

The Application for Distributorship must show the Applicant's residence address to be in a country or territory in which Herbalife has approved operations. A list of those countries and territories is provided in the International Business Opportunity Manual (Career Book) and will be revised from time to time as necessary.

**Rule No. 2 Requirements of Applicants****Rule 2-A Restrictions on Purchase Requirements**

The only cost that can be required of an Applicant for Distributorship is the purchase of an unaltered official Herbalife Distributor Kit (IBP). No other requirements may be made of either prospective or existing Distributors, including but not limited to the following:

- Maintain any minimum stock levels of products or materials.
- Purchase any amount of materials, products or services, either those produced by Herbalife or by a party other than Herbalife, except for the official Herbalife Distributor Kit (IBP).
- Purchase admission tickets to attend any seminars, meetings or other events.

**Rule 2-B Payment for Information**

A Distributor may not request a prospect or an applicant to make any payment in return for any information or assistance about becoming an Herbalife Distributor.

**Rule No. 3 Age Requirements for a Distributor****Rule 3-A Applicant Must Be 18 Years of Age**

An applicant must be at least 18 years of age to become an Herbalife Distributor and to conduct business in the USA. The minimum age requirements vary from country to country. For the requirements for other countries, please contact Distributor Relations.

**Rule 3-B Minor Distributorships**

However, a minor who is above the age of 14, may submit an Application for a minor Distributorship under certain conditions. This rule as written here applies only to the USA and varies from country to country. For consideration to become a minor age Distributor, the applicant must provide the following:

Notarized written approval from both parent(s) or legal guardian(s). The parent(s) or guardian(s) must accept responsibility for the actions of the minor.

If the parent(s) or guardian(s) is an Herbalife Distributor, then he/she must provide written, notarized authorization from his own Sponsor and upline Distributors, up to and including, his first three (3) active upline Supervisors, for the minor to become a Distributor, regardless of who is sponsoring the minor.

Additionally the parent(s) or guardian(s) who is himself/herself a Distributor must provide a written statement that he (they) will not help or participate in the development of the minor's Distributorship in any way that is a detriment to the parents'/guardians' own Sponsor or violates the Rules of Conduct that apply to the responsibility of his own Distributorship.

The Application must be submitted with all necessary supporting documentation to Herbalife Distributor Relations Department. Herbalife may request any additional authorizations or information it deems necessary to making a final decision on the acceptance of this Application.

Herbalife has sole discretion to accept or reject this Application for minor Distributorship without providing a reason for that rejection or acceptance. Herbalife will notify the Applicant in writing of the outcome of the Application.

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**Rule No. 4 Individuals Limited to One Distributorship****Rule 4-A One Distributorship Per Person**

An individual may have only one Herbalife Distributorship, under one Sponsor. A Distributor may only participate in the development of one Distributorship. He is not permitted to retail, recruit, promote, train, educate or otherwise assist in the development of the Herbalife business, for any Distributorship other than his own, except to assist his downline organization, as is appropriate for a Sponsor. This policy applies to both the Distributor and his/her spouse.

**Rule 4-B Applicant/Spouse or Individual Assisting in the Distributorship is a Former Distributor**

If an individual applying to become a Distributor, or his/her spouse or other individual assisting in a Distributorship, was formerly an Herbalife Distributor, the Application will only be considered as valid if all the conditions set out in Rule 7-E and any other applicable Rules of Conduct have been met.

**Rule 4-C Determination and Penalty for Dual Distributorships**

In the event that an individual and/or his/her spouse complete and sign more than one Application for Distributorship, the first time the Applicant enters into a Distributor Agreement that is accepted by Herbalife is considered the valid Distributorship. If Herbalife determines that an individual has signed an Application for Distributorship, or has worked or assisted in the development of another Distributorship as defined in these Rules of Conduct, while obligated to a prior Distributorship, Herbalife has sole and absolute discretion to determine the disposition of both Distributorships, as well as any penalties or sanctions it deems necessary and appropriate for the Distributorship and the Sponsoring organization(s). An applicant that signs more than one Application for Distributorship may be completely rejected as a Distributor.

**Rule No. 5 Married Distributorships****Rule 5-A Married Couples May Have Only One Distributorship**

Married couples may have only one Distributorship, unless their circumstances fall under the guidelines of Rule 5-D or 13-C. They may not be under separate Sponsors nor can they sponsor each other. This rule applies whether one or both signed the Application for Distributorship.

**Rule 5-B Couples Becoming Distributors Together**

Married couples wishing to become Distributors together must complete and sign a single Application for Distributorship, thereby having only one Sponsor.

**Rule 5-C A Distributor Who Marries**

If a Distributor marries and the spouse wishes to become a Distributor, the spouse must conduct business in the existing Distributorship. They may request to have the spouse's name added to the existing Distributorship.

**Rule 5-D Two Distributors Who Marry**

If two separate Distributors marry each other, then the couple must relinquish one of their Distributorships and become partners in the other. However, if both Distributors are Supervisors when they are married, then each may maintain their separate Distributorship, each remaining in the original line of sponsorship. Rules for remaining a Distributor still apply.

**Rule 5-E Responsibility for Individuals Assisting in a Distributorship**

If there is another person who assists in the operation of a Distributorship, who appears at Herbalife functions with the Distributor, or presents themselves as assisting in that Distributorship, who makes statements about their income or business achievements from the Herbalife business, or whom the Company is advised to recognize and acknowledge as assisting in the Distributorship, then the Distributor who submitted the Application for Distributorship is responsible for ensuring that the other individual assisting in the Distributorship follows all rules and regulations for Herbalife Distributors. Herbalife has sole discretion as to the determination and application of this policy.

**Rule 5-F Liability of Married Distributorship**

The liability of two (2) married Distributors who operate a Distributorship together shall be joint so that both such Distributors shall be responsible, and shall accept liability for, and shall be bound by, any act or omission of either Distributor and any payment by Herbalife to one such Distributor shall be deemed as payment to both such Distributors.

**Rule No. 6 Corporations and Partnerships****Rule 6-A Distributorships Must Be Individuals**

Herbalife only accepts Applications for Distributorship in the name of individuals. Applications in the names of corporations or partnerships will not be accepted. Distributors may request their Herbalife earnings be issued on checks made payable to someone else by submitting a written request to Herbalife Distributor Relations, provided there is a legitimate business reason. However, the Distributorship will remain in the name of the individual and the earnings of the Distributorship will be reported in the name and tax identification number of the individual Distributor.

**Rule No. 7 Remaining a Distributor****Rule 7-A Distributorship Validity**

A Distributorship is valid when accepted by Herbalife and no fee is payable for the granting of such Distributorship. The Distributorship continues until resignation by the Distributor or other termination of the Distributorship.

**Rule 7-B Annual Processing Fee**

Herbalife agrees to provide computer processing services for Distributors for which an annual processing fee is due. Such computer services are limited to maintaining discount rates, lineage records and qualification status.

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**Rule 7-C Acceptance of Annual Processing Fee**

Herbalife has absolute discretion to refuse any Processing Fee from any Distributor, without having to provide a reason for such refusal. In the event that Herbalife does refuse to accept a Processing Fee when due, the Distributorship will be deleted, the Distributor losing all rights and privileges of a Distributor. If a payment has been made, it will be refunded, unless applied to an outstanding debt of the Distributor, along with a written notice of the rejection from Herbalife. Please contact Distributor Relations for all appropriate fees.

**Rule 7-D Non-Payment of Annual Processing Fee**

In the event that a Distributor does not submit payment for the Annual Processing Fee by the date due, then Herbalife reserves the right to cease maintaining such computer records. Additionally, in the event that a Distributor does not submit payment, the Distributor will be deemed to relinquish their Distributor status and thereby all rights and interests in their lineage and royalty override or bonus entitlement.

**Rule 7-E Rule for Rejoining as a Distributor**

Any Distributor who resigns or who relinquishes their Distributorship due to nonpayment of the Annual Processing Fee, must wait a minimum of one (1) year before becoming a Distributor again under another Sponsor. This person may not become a Distributor again under another sponsor, unless both he/she and his/her spouse, or other individual assisting in a Distributorship have remained completely inactive as a Distributor for at least the required one (1) year waiting period from the date of termination or resignation of the original Distributorship.

The period of inactivity for the Distributor must be complete and absolute for consideration to rejoin the company as a Distributor. This means that during the one (1) year waiting period the Distributor as well as his/her spouse or other individual assisting in a Distributorship may not:

- Be involved in the Herbalife business in any way.
- Purchase products other than for personal use, bought at full retail price.
- Sell any Herbalife products, literature or sales materials.
- Sponsor or offer the Herbalife business opportunity to anyone.
- Participate in Herbalife trainings or meetings whether sponsored by the Company or a Distributor.
- Participate in any way in promoting, assisting or supporting any Herbalife Distributorship.

An individual who was formerly a Distributor and is re-applying to become a Distributor under a different sponsor is required to advise Herbalife of their former Distributorship and the conditions under which they ceased to be a Distributor. Herbalife maintains the right to terminate any Distributorship where the Distributor failed to inform Herbalife of a prior Distributorship.

If the Distributor wishes to become a Distributor again under his original Sponsor, and that Sponsor has remained in the original organization, he may do so without a waiting period provided he has an Official Herbalife Distributor Kit (IBP) and completes and submits a new Application for Distributorship.

**Rule 7-F Annual Processing Fee Is the Responsibility of the Distributor**

Herbalife endeavors to remind Distributors by mail at their last address listed with the company, when the date for Annual Processing Fee is near. However, the responsibility lies with the Distributor to assure this Processing Fee is paid each year on the anniversary of his original application date.

**Rule No. 8 Distributor Conduct****Rule 8-A Franchises or Territories**

No Distributor shall represent or imply that there are franchises or exclusive territories available under the Herbalife Sales and Marketing Plan.

**Rule 8-B Inducement to Sell Other Products or Services**

No Distributor or his/her spouse or other individual assisting in a Distributorship shall offer, invite, encourage or otherwise attempt to induce any other Herbalife Distributor whom he did not personally sponsor, to join other companies or to purchase or sell products or services other than Herbalife products.

Violation of this rule carries a very strong penalty including possible termination of the Distributorship.

**Rule 8-C May Not Associate Other Organizations with Herbalife**

As previously stated in these Rules of Conduct, the Herbalife business is an equal opportunity, regardless of sex, race, religious beliefs or political affiliations. It is our philosophy that everyone has a personal right to their individual beliefs and the freedom to choose.

Therefore, when training your organization or other Distributors, selling products or offering the business opportunity, Herbalife Distributors are not permitted to promote, discuss or offer, any company, organization or individual other than Herbalife, its staff and its Distributors. Likewise, Distributors may not include literature or other material that promotes any other organizations or individuals, whether religious, political, business or social or that implies any association between Herbalife and any other organization.

Herbalife meetings may not be used as a forum to express personal beliefs or promote any other organization, company, event or individual.

**Rule 8-D Business Activity in Unopened Country**

The Herbalife business may be conducted in any country or territory that Herbalife International has opened for business and advises Distributors of these approved operations. Business activity of any kind, in any other country or territory, including but not limited to, selling products, attempting to register products or marketing plan, sponsoring Distributors, advertising, conducting meetings or in any way offering the Herbalife product or opportunity may be unlawful and is strictly prohibited by Herbalife. A Distributor's failure to comply with this rule may damage or endanger the future business opportunity for Herbalife and its Distributors and as such will be severely penalized, including but not limited to, financial sanctions, long-term suspension or termination of the Distributorship.

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**Rule 8-E Comply with Local Laws**

Distributors must comply with all local, state and federal laws and regulations that apply to their Herbalife business and shall not engage in any business practice or activity that could discredit or damage the image or reputation of Herbalife. This applies not only to the laws where the Distributor lives but also to any country where the Distributor conducts his business as a result of taking advantage of Herbalife's International Sponsoring.

**Rule 8-F Undesirable Selling Practices**

An Herbalife Distributor shall not engage in high-pressure selling, but shall always conduct himself in a courteous and considerate manner. All presentations of Herbalife products must be complete and truthful, including but not limited to, instructions on the usage directions and precautions included on the product label and any accompanying literature.

**Rule 8-G Independent Distributors**

All Herbalife Distributors are independent business persons and no Distributor shall represent or imply that he has any employment relationship with Herbalife International or with any of its affiliated companies. The use of the words "employee," "agent" or "company representative" either orally or on any stationery, business cards, or other printed material is strictly prohibited.

**Rule 8-H False or Misleading Information**

No Distributor shall knowingly submit false or misleading information to the Company.

**Rule 8-I Maintaining Reputation and Image of the Company**

No Distributor shall do anything detrimental to the reputation and image of the Company, its products, Distributors, trademarks or trade names.

**Rule 8-J Indemnify Herbalife**

Without prejudice to the other rights of Herbalife, under these Rules of Conduct and other rules and regulations of the Company, Distributors shall indemnify Herbalife from and against all actions, claims, demands, prosecutions, fines, penalties and the costs thereof, (including Herbalife's actual legal costs) which might be made or brought against Herbalife in respect of, or arising directly or indirectly out of, any breach of any laws or regulations applying to the operation of their Distributorship. Herbalife shall have no liability to any Distributor in respect of any cost, loss, damage or expense suffered by any Distributor directly or indirectly as a result of any act, omission, representation or statement of any other Distributor.

**Rule 8-K Comply with Rules of Conduct**

Distributors must comply with all Herbalife Rules of Conduct and Distributor's Policies and other Rules and Regulations and any amendments or additions together with any procedures, recommendations, guidelines or instructions which may be issued from time to time by Herbalife.

**Rule 8-L Violations of Rules of Conduct**

Whenever there is any violation of the Herbalife Rules of Conduct or other rules and regulations and/or any procedures or directions issued by Herbalife, Herbalife may in its sole discretion take whatever actions or measures it deems necessary and

appropriate, including but not limited to, suspension of buying privileges, suspension of earnings, monetary fines or deletion or termination of the Distributorship.

**Rule 8-M Reporting Violations of Rules of Conduct**

Every Distributor has the duty and responsibility to promptly and properly report any and all violations of the Distributor Rules of conduct and all other Rules and Regulations published by the Company.

**Rule No. 9 Resignation of a Distributor****Rule 9-A Conditions of Resignation**

A Distributor may resign his Distributorship at any time, by submitting a notarized letter of resignation to Herbalife Distributor Relations Department. The resignation becomes effective when received, validated and accepted by Herbalife. Herbalife will advise in writing when this is complete. If Herbalife does not receive the resignation letter or the conditions are not met, then the Distributor is still deemed to be a Distributor.

**Rule 9-B Resigning within 90 Days**

If within 90 days after signing the Application for Distributorship, a Distributor decides not to continue as a Distributor, he shall submit a written, notarized resignation to Herbalife; he may then return the official Distributor Kit (IBP) to his sponsor who will provide him a pro-rata refund, i.e., a refund only for those unused Distributor Kit (IBP) contents that are still in good and resalable condition, (less a 10% handling charge or as determined by Herbalife.) After acceptance by Herbalife of a notarized letter of resignation, the rules for re-joining as a Distributor as indicated below and in all Rules of Conduct will apply.

**Rule 9-C Eligibility to Rejoin as a Distributor after Resignation**

Once the resignation is accepted, the Distributor and his/her spouse or other individual assisting in a Distributorship must remain completely inactive in the Herbalife business for a minimum of one (1) year from the date of Herbalife's acceptance of the resignation before becoming eligible to become a Distributor again. See Rule 7-E for complete details on the terms and conditions of inactivity necessary to rejoin the company.

**Rule 9-D Liability for Unpaid Debts**

A Distributor who resigns will remain liable for unpaid debts owed to Herbalife or for liabilities for violations of the Herbalife Rules of Conduct or other rules and regulations that govern the business practices of Distributors.

**Rule 9-E Resignation of Spouse**

In the event that one spouse of a Distributorship resigns his/her Distributorship then Herbalife reserves the right to terminate the Distributorship whether or not the spouse was a joint Distributor, if the activities of the resigned Distributor diminish, damage or weaken the reputation of Herbalife or its products.

**Rule 9-F Inventory Repurchase**

A resigning Distributor may return unused products or sales materials which are unopened and in resalable condition, for re-

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purchase under the following terms and conditions, if the products were purchased from Herbalife within the last 12 months and the resigning Distributor provides proof of purchase. The Company reserves the right to offer the upline of the resigning Distributor, the opportunity to repurchase those products directly, for a period not to exceed two weeks. If the upline does not re-purchase the inventory, the Distributor will then be directed to return the products to Herbalife along with, if appropriate, their records relative to the 70% Rule. Within seven business days of the receipt of these items, reimbursement to the Distributor will be issued for the full amount paid for the returned product by the Distributor if all terms and conditions have been met.

Herbalife will deduct the amount of royalty overrides and production bonuses paid on the returned products from the appropriate Distributors, and adjust qualifications as necessary.

## **Rule No. 10 Responsibilities of a Sponsor**

### **Rule 10-A Provide a Distributor Kit (IBP)**

A Sponsor must provide all Distributors he sponsors with an unaltered official Herbalife Distributor Kit (IBP).

In the event such sponsored Distributor wishes to return the official Herbalife Distributor Kit (IBP) within 90 days of submitting his/her Distributor Application, the sponsor must promptly refund the value of products (pro-rata) returned in a saleable condition.

### **Rule 10-B Ensure Product Supply**

A Sponsor is responsible for ensuring that his sponsored Distributors are able to acquire Herbalife products. Products should be supplied within a reasonable period of time. A Sponsor may supply them from his own inventory or service them through his Supervisor, if Distributors are non-Supervisors, or by ordering directly from Herbalife.

### **Rule 10-C Training**

A Sponsor is responsible for properly training his personally sponsored Distributors on the products and their usage, the sales and marketing plan, the Rules of Conduct and other company rules, regulations and guidelines for Distributors. He may seek assistance from his upline Supervisor or TAB Team member but the primary responsibility is his own.

No Sponsor may require payment from a personally sponsored Distributor for training or training facilities unless he fully explains that the Distributor may choose whether or not he wants to participate in such training and states in advance the cost for such training. If the Distributor declines to participate in such "paid" training, the Sponsor is obligated to provide basic training necessary to learning the business.

### **Rule 10-D Compliance with Rules of Conduct**

A Sponsor is responsible to the best of his ability to ensure that each of his personally sponsored Distributors fully understand the Rules of Conduct and other company rules and regulations, and their obligations to comply with those rules, and to endeavor to assure they conduct their business within these guidelines.

### **Rule 10-E Independent Relationship**

A Sponsor must maintain and uphold the independent relationship between himself and his Distributors.

### **Rule 10-F Support Company Sponsored Events**

A Sponsor shall keep informed of company-sponsored events and when appropriate encourage his personally sponsored Distributors to attend Herbalife sponsored meetings and trainings and to participate and support all company sponsored events.

### **Rule 10-G Failure to Qualify as a Supervisor**

Whenever a Distributor who has not attained the level of Supervisor, personally sponsors a Distributor who then qualifies as a Supervisor before his original Sponsor becomes a Supervisor, the following will occur:

1. The sponsoring Distributor shall have a period of one year from the date of the sponsored Supervisor becoming fully qualified as a Supervisor to personally qualify himself as a Supervisor.
2. If the sponsoring Distributor fails to qualify as a Supervisor during the one year period, the sponsored Supervisor will be permanently advanced upline to the first qualified Supervisor within that organization.

## **Rule No. 11 Protecting and Maintaining Lines of Sponsorship**

### **Rule 11-A Changes in Sponsorship**

The Distributor/Sponsor relationship is the foundation of the Herbalife Sales and Marketing Plan and as such the principles and rules of the company protect the rights of the Sponsor. Changes of sponsorship are believed to be detrimental to the integrity of the business and as such, are discouraged and rarely permitted and then only under certain conditions and at the sole and absolute discretion of Herbalife.

### **11-B Inducement to Change Sponsors**

In order to protect the sponsor, no Distributor may interfere with the relationship between another Distributor and his/her sponsor in any way. A Distributor may not offer, entice, encourage, solicit, or otherwise influence or attempt to persuade another Distributor to change his sponsor or line of sponsorship, either directly or indirectly.

### **11-C Applying for Change of Sponsorship**

A Distributor who wishes to pursue changing sponsors must obtain a written, notarized release from his Sponsor and each upline Distributor, up to and including, the three active, royalty override receiving, upline Supervisors and from the upline active GET, Millionaire and President's Team members. These notarized releases must be submitted to Herbalife Distributor Relations detailing the reasons for this request and forfeiting all rights to the existing Distributorship if the request is approved. Only after all this documentation is submitted, will Herbalife review the request. Fulfillment of any part of this requirement does not in any way imply or guarantee approval of the request.

The determination of this request will only be made by Herbalife headquarters in Los Angeles, California. Herbalife has sole discretion to approve or deny such request without providing justification for acceptance or rejection.

If such a request for change of sponsorship should be approved, the Distributor will not be permitted to bring any of his



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downline organization with him as part of the transfer.

If the request for a change of sponsorship is denied, and the Distributor is determined to change his Sponsor, the only remaining alternative is to resign his Distributorship, forfeiting current and future rights to his downline organization and both the Distributor and his/her spouse or other individual assisting in a Distributorship must remain completely inactive as a Distributor for one (1) year after the effective date of resignation before re-applying as a Distributor. Refer to Rule 7-E for complete rules for resignation and re-joining the company. Herbalife has sole discretion in determining if the former Distributor and his/her spouse or other individual assisting in a Distributorship have met the conditions of inactivity when either of them re-apply as a Distributor. Herbalife does not guarantee that a Distributor who resigns will be accepted again as a Distributor.

#### **Rule 11-D Penalty for Violation of the Change of Sponsorship Rule**

Herbalife has sole and absolute discretion to rescind the acceptance of an Application for Distributorship from a former Distributor, at any time in the future if evidence is provided that shows the former Distributor or his/her spouse or other individual assisting in a Distributorship were not completely inactive the full one (1) year waiting period after resignation or non-payment of the Annual Processing Fee, failed to advise Herbalife of a prior Distributorship or did not otherwise meet the terms and conditions of the resignation or termination as set forth in these Rules of Conduct. If Herbalife determines it is necessary to reverse an acceptance of a former Distributor due to a violation of the rules for protecting the lines of sponsorship, then Herbalife has sole and absolute discretion to assess whatever penalties are deemed necessary and appropriate. These include, but are not limited to, the transfer of all sponsored Distributors in the new Distributorship to the original Sponsor's organization, financial penalties, suspension and possible termination of the Distributor in violation of these rules.

### **Rule No. 12 Assignment, Sale or Transfer of Distributorship**

#### **Rule 12-A Not Permitted without Prior Written Consent from Herbalife**

The Herbalife business and the benefits, rights and obligations therein are personal to the achievements of the individual Distributor. The sale, assignment or transfer of any right or interest in a Distributorship is not permitted without prior written consent by the Legal Department, of Herbalife headquarters in Los Angeles, California. Such requests should be forwarded to Distributor Relations who will submit to the Legal Department, on behalf of the Distributor when all necessary documentation is received.

#### **Rule 12-B May Only be Assigned or Transferred to a Non-Herbalife Distributor**

A Distributorship can only be assigned or transferred to an individual who is not an Herbalife Distributor. If the individual wishing to assume responsibility for the Distributorship was formerly an Herbalife Distributor then he/she must meet all requirements of a former Distributor to re-join the Company.

#### **Rule 12-C Retention of Status and Benefits**

The achievements of a Distributor are personal to the individual, and as such, if an assignment or transfer should be authorized, the status and benefits achieved by the Distributor are not necessarily transferred with the Distributorship. The individual assuming responsibility may be required to achieve all qualifications for status and earning requirements after the assignment or transfer is made. This includes, but is not limited to, Supervisor status, TAB Team status, vacation qualifications or any other rights of the individual Distributor.

#### **Rule 12-D Rule for Rejoining the Company**

If the Distributor transferring or assigning the Distributorship wishes to become a Distributor again, he must maintain one (1) year of inactivity as defined by Herbalife in Rule 7-E after the assignment or transfer is completed before re-applying. Herbalife reserves the right to reject this re-application without having to provide justification for such rejection.

### **Rule No. 13 Distributors who Divorce or Separate**

#### **Rule 13-A Conditions of Separation or Divorce**

Whenever a Distributor(s) is in the process of a separation, divorce or dissolution of a marriage, the Distributor(s) must ensure that the interest of the Distributorship and the Sponsor are protected.

#### **Rule 13-B May Not Participate in Another Distributorship**

During the separation, divorce or dissolution proceedings, neither of the parties may develop or assist in developing, either alone or with or on behalf of someone else, any other Herbalife Distributorship except under their original Sponsor and as defined in Rule 13-D.

#### **Rule 13-C Rights to Continue a Distributorship Under Same Sponsor**

However, married Distributors who have divorced or separated, may request to conduct an Herbalife business that is separate from their spouse, under their original Sponsor, and under certain guidelines and only with the approval of, and at the sole discretion of Herbalife. The sole purpose of this is to allow a Distributor to continue conducting the Herbalife business and building an organization, without his/her spouse if he/she chooses, but continuing under his/her same sponsor.

For consideration, each person may submit a letter of request along with a newly completed and signed Application for Distributorship in their own individual name, under the existing line of sponsorship of the joint Distributorship. A condition of this Distributorship is that the Distributor assures the original Distributorship will be supported and maintained as first priority. Under no circumstances may this new Application be under a different Sponsor except as noted in Rule 13-D. This Application for Distributorship, if accepted, is considered an addendum to the joint Distributorship, maintaining current status.

In these cases, the monthly volume and royalty point requirement for purposes of Royalty Overrides, Production or other bonuses is the same as is required in the original

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Distributorship. The Total Volumes and Royalty Points will be combined from all Distributorships of these Distributors to determine earning eligibility and qualification requirements. For example, suppose a married couple who are Millionaire Team members become divorced and each start a second Distributorship under the original sponsor. As long as there are 3,000 Total Volume Points purchased in the three Distributorships combined, and the total royalty points for all three Distributorships equal 4,000 Royalty Points, then all three Distributorships may earn the full 5% Royalty Override and the 4% Production Bonus, assuming all other requirements were met. Both individuals must comply with the Ten Retail Customers Rule and the 70% Rule and any other requirements to earn Royalty Overrides. For Supervisor qualification purposes, each individual distributorship is required to achieve necessary volume to meet Matching Volume requirements for Supervisors they are qualifying.

#### **Rule 13-D Joining Under a Different Sponsor**

It is not permitted for either spouse to sign an Application for Distributorship under a different sponsor unless a one (1) year period of inactivity as defined by Rule 7-E, has been maintained following the legal disposition or filing regarding the Distributorship and Distributor is in compliance with all other rules and regulations.

#### **Rule 13-E Authority of a Legal Decision**

This addendum Application as defined in Rule 13-C or 13-D, and any other Herbalife rules and regulations, in no way supersedes the dictates of any court of law as to the disposition of the Distributorship and or the rights, benefits or obligations of either party to the Distributorship.

### **Rule No. 14 Survivorship**

#### **Rule 14-A Death of a Distributor**

Upon the death of a Distributor who has a surviving spouse or heir who is an active participant in the business, the Distributorship will remain with the spouse or heir. Any other disposition of the Distributorship must be approved by the Legal Department of Herbalife headquarters, in Los Angeles, California.

### **Rule No. 15 Maintaining Supervisor Status**

A Distributor who has achieved the status of Supervisor has shown willingness to accept a leadership role. In addition to the responsibilities of a Sponsor, a Supervisor is responsible for the following.

#### **Rule 15-A Requalify Annually**

Each Supervisor must requalify his status each year between February 1 and January 31 of the following year, by achieving the same requirements as the original Supervisor qualifications. That is, achieve 4,000 Volume Points in one month or 2,500 Volume Points in two consecutive months, with at least 1,000 Volume Points unencumbered in each month. In addition to requalifying his Supervisor status, a Supervisor must assure his Annual Processing Fee is current and paid.

Supervisors who do not complete their Supervisor Requalification by January 31 will be demoted to the position of Senior Consultant, and will lose all rights and privileges of a

Supervisor. This includes but is not limited to, the loss of any lineage that includes a Supervisor. In this case the entire downline lineage will be moved to the next upline fully qualified Supervisor.

#### **Rule 15-B Teach Proper Advertising**

Advise and teach downline Distributors the proper use of advertising as well as explaining the advertising rules and regulations and show proper use of literature and sales aids.

#### **Rule 15-C Report Violations of Rules of Conduct**

Report any violations of the Rules of Conduct or other rules and regulations of the company and assist the company in enforcing them.

#### **Rule 15-D Conduct Regular Trainings**

Train his/her organization on a regular basis, either by holding or organizing regular meetings, teleconferences or through fax or mail communications.

#### **Rule 15-E Maintain Permanent Address**

Maintain a permanent home or business address and provide this to both Herbalife and his organization so they may maintain contact with him.

#### **Rule 15-F Ensure Proper Preparation of Distributor Documents**

Ensure the proper preparation of Applications for Distributorships and Supervisor Applications and require each Sponsor to send the appropriate copy to Herbalife immediately.

#### **Rule 15-G Ensure Understanding and Compliance with Customer Refund Policy**

Ensure that the Herbalife customer refund policy is thoroughly and properly understood and applied, and to intervene in any disputes between customers and Distributors to assure they are settled promptly and amicably.

#### **Rule 15-H Keep Informed of Herbalife's Policies**

Stay informed of Herbalife's policies by reading the Career Book and all material provided by the Company from time to time. Review these with downline organization to ensure they are aware of and understand them.

### **Rule No. 16 Purchasing Products**

#### **Rule 16-A Proper Purchasing of Product**

A Distributor must purchase all Herbalife products from his/her Sponsor, his/her first upline Supervisor (if his/her Sponsor is not a fully qualified Supervisor), or directly from Herbalife. Product sales purchased directly from Herbalife by Distributors who are not Supervisors, at a discount of less than 50%, are credited to the first upline fully qualified Supervisor's personal volume.

#### **Rule 16-B Orders Purchased at 50% Discount**

All product purchases eligible for a 50% discount (Supervisor orders) must be purchased directly from Herbalife and may not be purchased from an upline or other Distributor.

#### **Rule 16-C Eligibility for Temporary 50% Discount**

A Distributor who has completed a one-month Supervisor Qualification of 4,000 Volume Points is considered a **Qualifying Supervisor** until the first of the following month when he/she

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becomes a **Fully Qualified Supervisor**. As a **Qualifying Supervisor** he/she is eligible for a temporary 50% discount for the remainder of the volume month in which his 4,000 Volume Points were purchased.

Distributors who are qualifying for Supervisor in two consecutive months of 2,500 Volume Points, are not eligible for a temporary 50% discount. They become eligible for a 50% discount on the 1st of the month following completion of their two month qualification when they are promoted to fully qualified Supervisor, providing the Supervisor Application is approved and accepted.

#### **Rule 16-D Authorization of Temporary 50% Discount Purchases**

To activate the temporary 50% buying privileges, the first upline Supervisor must notify Herbalife and authorize the temporary 50% discount, before the order can be processed. The upline Supervisor must attest to and verify the Qualifying Supervisor has achieved the necessary volume to complete the one month Supervisor qualification. The upline Supervisor must have adequate personal volume credited with Herbalife in that month to qualify the Supervisor.

To assure volume on the order is credited properly, it is imperative that the order form be completed correctly. The Temporary 50% Purchaser must assure that his/her Name and ID number are entered on the Product Order Form in the **Temporary 50% - Qualifying Supervisor** space to assure proper crediting of volume. The name and ID number of the first upline Fully Qualified Supervisor who is authorizing the 50% discount must also be entered in the **Fully Qualified Supervisor** space. Adjustments to the order after the order is placed are not permitted. Volume purchased at Temporary 50% is considered Group Volume for the Fully Qualified Supervisor.

#### **Rule 16-E If Temporary 50% Distributor Fails to Complete Qualification**

If for any reason the Qualifying Supervisor does not complete the Supervisor qualification or Herbalife does not receive the Supervisor Application on time or does not accept the Supervisor qualification for any reason, an adjustment will be made to move all temporary 50% orders back to a 42% discount, thus changing the volume from group volume to personal volume for the Supervisor. If this adjustment is completed after the Royalty Override process is concluded, then commissions, royalty overrides and production bonuses that may have been paid incorrectly as a result of the temporary 50% discount, order authorization will be adjusted and paid to their rightful recipient as well as adjusting any qualifications. The Supervisor who authorized the purchase must assure Herbalife that orders (volume) will be placed accurately in the future.

#### **Rule 16-F Buying and Selling Products Outside Proper Line of Sponsorship**

A Distributor is prohibited from buying products at a discount from any Distributor other than as authorized in Rule 16-A and 16-B. Likewise, a Distributor is prohibited from selling to any Distributor other than his downline personal organization, in keeping with Rule 16-A and 16-B.

#### **Rule 16-G Orders Must be Paid By Purchaser**

Payment for all orders purchased from Herbalife must be made by the Distributor designated as Purchaser on the order, his/her spouse or the first upline Supervisor if the Purchaser is a non-Supervisor, unless specific written approval is given by Herbalife for payment to be made by another individual. If written approval is given, it is for a specific order only and all subsequent orders will have above rules applied.

Distributors may not provide payment for product orders in another Distributor's name, unless a Supervisor is ordering for a non-Supervisor, which is considered the Supervisor's own personal volume.

Attempts to purchase products in another Distributor's name could be interpreted as attempts to improperly advance in the marketing plan.

#### **Rule 16-H Unacceptable Forms of Payment**

Distributors may not use the credit cards, personal checks or any other form of payment from their Distributors, retail customers or other individuals to pay for orders purchased from Herbalife.

### **Rule No. 17 Explanation of Sales Volume Month**

#### **Rule 17-A Definition of Volume Month**

Sales Volume is credited to and accumulated by a Supervisor on a volume month basis. The volume month begins on the first business day of the month and ends on the last business day of the month. If the last day is Sunday, the volume month will be extended to Monday. Likewise, if the last day of the month is considered a holiday, the month may be extended to the first business day after the holiday. Herbalife reserves the right to modify the Volume Month as it deems appropriate.

#### **Rule 17-B Determination of Volume Month**

Sales Volume is credited to the Volume Month in which the order is both **placed and full payment is received by Herbalife**, except for orders that meet the rules and conditions that apply to Add-On Sales Volume.

Under no circumstances can volume be placed for a prior order month, with the exception of a Matching Volume order.

#### **Rule 17-C Add-On Sales Volume**

All of the following conditions must be met for an order to be accepted as Add-on Sales Volume:

1. Order must be placed no later than the designated last order day of a volume month, plus
2. Full payment must be made, or initiated, by the same last order day of the month. If payment is mailed, then the postmark must be stamped the designated last day. If the payment is a wire transfer, direct deposit or other bank transaction, a receipt must be supplied to verify the transaction date was on or prior to, the last designated order day of the month, plus
3. Full Payment must be received by Herbalife no later than the 5th day of the following month. If the 5th of the month falls on a Sunday or a holiday, then the payment must be received by the 4th of the following month.

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If for any reason, a payment is not approved for acceptance such as with a credit card, personal check or APS, then the order will be canceled and the volume will not be applied unless another order was placed and paid within the time periods indicated in these Rules of Conduct.

## Rule No. 18 Matching Volume Requirement

### Rule 18-A Definition of Matching Volume

The definition of Matching Volume is the total volume a sponsoring Supervisor must achieve in any given volume month when his/her downline Distributor(s) are qualifying as Supervisor.

Whenever a fully qualified Supervisor sponsors a Distributor(s) to the Supervisor position, the sponsoring Supervisor's total volume must be at least the same amount as the Distributor's volume within that same volume month. Supervisors are not permitted to qualify Distributors as Supervisors using volume purchased in a prior volume month unless an equal amount is purchased from Herbalife in the current month to replace it.

### Rule 18-B Matching Volume for Supervisor Qualification

The sponsoring Supervisor must have at least 4,000 personal Volume Points for each of his downline organizations that are qualifying for Supervisor using a one month qualification. The sponsoring Supervisor must have at least 2,500 Personal Volume Points each month for each of his downline organizations that is qualifying for Supervisor with a qualification of two consecutive months.

The sponsoring Supervisor, however, must have enough total volume to match all orders submitted by his downline Distributors who are qualifying for Supervisor.

For example, suppose a Supervisor sponsors a Distributor who qualifies for Supervisor in September with 4,000 total Volume Points. If the orders to qualify are purchased directly from Herbalife, either at 42% by the Distributor or directly by the Supervisor, the volume will be automatically matched. If the orders are purchased directly from the Supervisor, the Supervisor must ensure that an equal amount of volume is purchased from Herbalife during the qualifying month in order to match volume.

### Rule 18-C Failure to Match Volume

If, when a Supervisor Application is received from a Distributor, and the first upline Fully Qualified Supervisor does not have enough total Volume Points for the month the qualifying Supervisor's volume was achieved, to confirm the orders submitted by the Distributor to qualify, then the fully qualified Supervisor is "short" matching volume. Herbalife will notify the Supervisor that he must place a **Matching Volume Order** for the amount he is short in order to complete the qualification of his Distributor to Supervisor. The Order Department will be authorized to accept the matching volume order for the appropriate month.

To place this volume, the order must be clearly identified as **Matching Volume Order for Month of \_\_\_\_\_**.

### Rule 18-D Matching Volume Order

To receive proper credit for this volume, the order must be clearly identified as **Matching Volume Order for the**

**appropriate month and year**, with full payment included. The order may not be combined with other volume. A Matching Volume order can only be accepted by Herbalife if the company has identified a Matching Volume problem and notified the Supervisor accordingly, and has authorized the Order Department to accept the order. This order will be applied to the volume month specified. Matching Volume Orders placed after the volume month in question do not count for Royalty Point qualifications for TAB Team Production Bonuses or other earnings for the Supervisor. However, appropriate adjustments will be made on the order to the upline Royalty and Production Bonus receiving Supervisors of the sponsoring Supervisor.

### Rule 18-E Matching Volume Permanent Penalty

The Supervisor must place the **Matching Volume Order** with Herbalife prior to the end of the month following the Distributor's qualification, to avoid a penalty. If the Supervisor who is short volume, fails to place an order to match volume, a Matching Volume penalty will be assessed. The penalty is that the Supervisor will permanently lose a Supervisor who qualified the month in question and that Supervisor's downline.

## Rule No. 19 Customer Retail Receipts and Refund Policy

### Rule 19-A Providing Retail Receipts to Customer

A Distributor must provide an official completed Herbalife Retail Order Form to all retail customers when the sale is completed. This must list the products sold, the sales price, and the name, address and telephone number of the Distributor and the customer. Distributors are required to maintain their copy of all Retail Order Forms on file for a period of 2 years. Herbalife maintains the right to request copies of these and to verify the transactions and the terms and conditions of the sale and the service provided by the Distributor.

### Rule 19-B Customer Refund Policy

The Herbalife products have a 30-Day Money Back guarantee for the retail customer. The thirty (30) days commences on the date the customer receives the product. When a customer requests the guarantee be honored, the Distributor must respond quickly and courteously. He may offer the customer a choice of a full refund of the purchase price or full credit for exchange of other Herbalife products in accordance with the return procedures set forth in the Career Book. The Distributor must honor the customer's choice. (See procedures on page 14 of the Sales and Marketing Plan Section.)

## Rule No. 20 Royalty Overrides and Bonuses

### Rule 20-A Requirements to Earn

To qualify for monthly Royalty Overrides, Production Bonuses or other bonuses offered by the company, Distributors must meet sales production and Royalty Point requirements that are fully defined in the marketing plan section of the Career Book or other literature and promotional material. Additionally, in order to earn these payments, Distributors must meet certain requirements for retail customers and product distribution and confirm those on the first of each month on the Earnings Certification Form. The additional requirements are

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defined below.

### **Rule 20-B Product Distribution**

Herbalife is a wholesale/retail distribution company. Products purchased from the company are intended to be sold and distributed to retail customers, downline Distributors or used for Distributors' and their immediate families' own personal consumption. The purchase of products solely as an attempt to qualify for advancement in the marketing plan is not permitted.

Any such attempts will result in severe sanctions, including, but not limited to, demotion in team status, probation, suspension of buying privileges, suspension of earnings, disqualification from bonus participation, deletion or termination of the Distributorship.

### **Rule 20-C Ten Retail Customers Rule**

A Distributor must make sales to at least ten (10) separate retail customers each month to qualify for and receive Royalty Overrides and the Tab Team Production Bonus or other bonuses paid by Herbalife. If the Distributor fails to provide confirmation to Herbalife of these ten (10) retail customers, the Royalty Override and the Production Bonus earnings will not be paid to the Distributor.

### **Rule 20-D The 70% Rule**

In any given month, a Distributor must sell to retail customers and/or sell at wholesale to downline Distributors, at least 70% of the total value of Herbalife products he/she retains for resale in order to receive Royalty Overrides or Production Bonuses for that month's activity or to be recognized as a GET, Millionaire or President's Team member. If Distributors fail to certify this information each month, the Royalty Overrides and Production Bonuses will not be paid to the Distributor.

### **Rule 20-E Commission Payments for Downline Distributors**

Since volume is accumulated by fully qualified Supervisors only, the wholesale profit or commissions earned by downline Distributors, when their own downline Distributors purchase products from Herbalife, will be paid to the Supervisor. The Supervisor is required to pay these commissions out to their downline distributors by the end of the month the commission payment is received.

### **Rule 20-F Maintenance of Records**

Distributors must maintain records of all their product distribution for a minimum of 2 years. The records must contain the name, address and telephone number of the customer or Distributor to whom products were sold and complete information on products bought and amount and method of payment. These records must be provided to Herbalife immediately upon request. Herbalife maintains the right to contact retail customers and downline Distributors to confirm these transactions and the level of service provided by the Distributor.

### **Rule 20-G Debts Owed to Herbalife**

If a Distributor owes Herbalife a debt, including but not limited to, any amount owing to Herbalife for products ordered, adjustments to earnings for inventory repurchases by downline Distributors or other earning adjustments, penalties assessed due to violations of the Rules of Conduct or other regulations of the Company, return of check or other form of payment for insufficient funds or past due Annual Processing Fees, Herbalife reserves the right to deduct the amount owed from any sum payable to the

Distributor or to withhold payment of moneys owed until such time as all amounts owing by the Distributor to Herbalife have been paid in full and/or may decide not to recognize any qualification until the amount due Herbalife has been paid or settled.

### **Rule 20-H TAB Team Production Bonus**

This bonus is paid to TAB Team members who complete all the qualification requirements and who demonstrate leadership both within their organization and to all other Distributors. Any TAB Team member who is in violation of any of the Rules of Conduct, Distributor Policies or other rules and regulations of the Company may forfeit the right to participate in this bonus program. Herbalife, in its sole discretion, may determine a Distributor's eligibility to participate in this bonus.

### **Rule 20-I Annual Federal/State Tax Reporting**

Distributors are solely responsible for the proper reporting of their income and payment of their taxes. Any questions should be referred to the individual Distributor's own tax advisor.

U.S. Federal and State tax laws impose certain reporting requirements with which Herbalife fully complies. For the proper administration of these reporting requirements, all Distributors in the United States and those that are citizens of the United States, wherever resident, must present proper taxpayer identification numbers, usually their social security number. It is the Distributor's responsibility to assure that the name, legal address and taxpayer identification number is properly recorded in the Herbalife computer system and to immediately advise if a correction is needed. Failure to do so will result in the imposition of back-up withholding taxes.

Payments to upline Distributors outside the United States of U.S. commissions, overrides, or bonuses are deemed to be U.S. source income and subject to U.S. nonresident withholding taxes. Depending on the Distributor's situation and the laws of the Distributor's resident country, relief from double taxation is often available. Affected Distributors are encouraged to consult with their tax advisors.

Any attempt by a Distributor to impede Herbalife's reporting responsibilities or the proper administration of U.S. tax laws will be treated as an ethical violation.

## **Rule No. 21 Selling Practices for Herbalife Products**

### **Rule 21-A For Sale Only in Authorized Countries**

Herbalife products are intended for sale and distribution within the specific countries for which those products are approved and produced. The sale of these products in any other country are strictly prohibited. Any violation of this rule may result in legal or regulatory problems for the company and endanger the business for all Distributors. For this reason, the penalties to Distributors who violate this rule will be severe and may include significant fines, suspension of earnings payments, suspension of buying privileges and/or termination of the Distributorship.

### **Rule 21-B Directions for Use**

Distributor shall explain the directions for use and cautions if

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any, specified on product labels when selling the products.

### Rule 21-C Product Claims

Distributors:

Must not make any oral or written medical, therapeutic or curative claims about Herbalife products. If a customer is under a physician's care, Distributors are advised to recommend the customer consult with his physician before undertaking any changes in his diet. Any person with heart, liver or kidney disorders or who is under current medical treatment, should always be urged to seek the advice of his physician before changing his diet.

Must not make any claims about the Herbalife products, either orally or in print, other than those presented in the International Business Opportunity Manual, *Product Brochure* or other official Herbalife literature.

Must not misrepresent in any way the price, quality, performance or availability of Herbalife products.

### Rule 21-D Misrepresentation of Product Registration

All Herbalife products comply with all applicable federal, state and local laws and regulations. Distributors are not permitted to use the name of the FDA (Food and Drug Administration) when representing the Herbalife products.

### Rule 21-E Indemnify Herbalife

Without prejudice to the other rights of Herbalife under the Rules of Conduct and other rules and regulations, Distributors shall indemnify Herbalife in respect to any costs or damages arising from any violation of Rule number 21.

### Rule 21-F Product Sales to Non-Distributors for ReSale

No Distributor may sell Herbalife products to persons who are not Herbalife Distributors and whose intention it is to resell those products.

### Rule 21-G Modifications to Labels and Materials

A Distributor may not delete, add, modify or alter any labels, literature, material or packaging for any Herbalife product or literature including the official Herbalife Distributor Kit (IBP).

### Rule 21-H State and Local Sales Taxes

Many Herbalife products are considered taxable under the states' sales tax laws. Distributors are primarily responsible for their own sales tax liability and must be in compliance with all applicable sales tax laws.

Herbalife has voluntarily registered in many states to precollect state sales taxes on behalf of Distributors and thus reduce the Distributors' compliance requirements. Sales tax is based on the ultimate retail price of products shipped to these states. In some states, Distributors may obtain from the state and submit to Herbalife a resale certificate. By doing so, the Distributor retains primary responsibility for the collection, reporting and payment of all such taxes. For a list of these states, please contact the Distributor Relations Department at 310-216-9661.

### Rule 21-I Local Taxes and Permits

The various states and municipalities may impose a variety of taxes permits, or fees on persons conducting business within their jurisdictions. It is the responsibility of each Distributor to familiarize

themselves and to fully comply with such legal requirements. Failure to do so may reflect badly on Herbalife Distributors and may be considered in an ethical violation.

## Rule No. 22 Displaying and Selling Products

The fundamental business of an Herbalife Distributor is the selling of Herbalife products.

### Rule 22-A Display in Retail and other Establishments

No Distributor shall display Herbalife products in any retail establishments, including beauty and barber shops, health spas or gymnasiums, drug stores or pharmacies, groceries or health food stores, military stores, trade fairs, fairs, swap meets, fetes, open-air markets, conventions, schools, vendor carts, or any other location which Herbalife considers to be a retail establishment or to be otherwise unacceptable.

### Rule 22-B Brochures, Flyers, Printed Material

It is permissible to have any Herbalife produced or approved brochures, flyers, catalogs, *Journals*, magazines, business cards or other printed material on a counter top or table, but not presented in a display fashion.

### Rule 22-C Sales Aids and Promotional Items

Any Herbalife produced or approved T-shirts, caps, buttons, etc. may be worn in a retail location or other establishment identified in Rule number 22-A, but may not be displayed. The Herbalife banner may not be displayed in any place other than a Distributor's office or meeting. The banner may not be displayed outside of the office or meeting room. An Herbalife produced or approved video may be played in such establishments as long as the video is not visible from the street or sidewalk.

### Rule 22-D Distributor's Private Offices

A Distributor with a private office may sell Herbalife products from such an office provided that no products, signs, posters, flyers or brochures are visible from the street or sidewalk.

### Rule 22-E Doctors or other Professional Offices

Doctors, healthcare or other professionals who are also Distributors may sell Herbalife products from their offices provided there are no products on display. It is permissible to have Herbalife produced brochures or literature on a counter top or table, provided they are not presented in a display fashion.

## Rule No. 23 Advertising and Promotion

### Rule 23-A Approved Advertisements and Promotional Material

Herbalife endeavors to produce and make available effective promotional literature and sales tools for Distributors use in advertising or promoting his/her business. Likewise, the company has approved many ads and flyers for production and use by the Distributor.

Distributors may produce their own advertisements provided they are truthful and accurate in content, make no therapeutic or medical claims, do not imply an employment opportunity and otherwise follow all Rules of Conduct for Advertising.

Contact Distributor Relations for a listing of the current approved advertisements.

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**Rule 23-B Video/Audiotapes**

A Distributor may not display or mention the name of any Herbalife products, trademarks or trade names in any video or audio recording made by, for, on behalf of, or at the direction of a Distributor, unless such tape has been approved for use by Herbalife.

**Rule 23-C Television, Cable or Satellite or Radio Broadcasting**

It is not permitted for any Distributor to broadcast any video or audio recording of any kind that relates to, mentions, displays or promotes in any way, either directly or indirectly, the Herbalife name, products, materials, business opportunity or methods of conducting business except for the following approved advertisement:

Herbalife Independent Distributor  
Call Me for products or opportunity  
(Distributor Name and Phone No. or E-Mail Address)

**Rule 23-D Television Advertising**

In the event that Herbalife should broadcast on a television, satellite or radio station, no Distributor may advertise on that station or network at any time during the period beginning one hour before through one hour following the Herbalife broadcast, even though such advertisement may otherwise conform with Herbalife's Advertising or other Rules.

**Rule 23-E Telephone Book Listings**

Herbalife Distributors may list themselves in the white pages of the telephone directory under the heading "Herbalife Distributor." The only information that may follow this is the Distributor's name and/or address and telephone number.

Yellow page display ads must conform to all Herbalife Advertising Regulations and the word "Herbalife" other than "Herbalife Independent Distributor," logos and/or trademarks of Herbalife International may not be used in any way other than as used in the approved advertisement. Yellow page categorical listings are permissible under accurate (non-medical, non-therapeutic and non-curative) headings. Accurate headings would include: Cosmetics, Hair Care Products, Skin Care Products, Health Products or Nutritional Products and Weight Loss/Control. Distributors may use display ads in the yellow pages as long as the advertisement is within the guidelines for print advertising as indicated in Rule 23, Advertising and Promotion.

**Rule 23-F Toll Free Telephone Numbers**

Distributors may have a toll free telephone number, however, it is not permissible to use any Herbalife trademarks, trade names or slogans such as: "Herbalife," "Herbalife International," "Thermojetics™" and "Dermajetics™" in conjunction with the toll-free number. Distributors may only identify or list themselves as "Herbalife Distributor" or "Herbalife Independent Distributor."

**Rule 23-G Local Laws**

In addition to Herbalife's policies, Distributors must comply with any and all local, state and federal ordinances, laws or other regulations when advertising or promoting Herbalife products or business opportunity. It is the responsibility of the Distributor to determine what these may be and how they apply to his business.

**Rule 23-H Internet**

Distributors must comply with all advertising rules and regulations when advertising on the Internet.

For complete information on how to use this media for advertising your business, contact Distributor Relations.

**Rule 23-I Interviews or Statements to the Media**

Distributors from time to time may be approached by reporters interested in interviewing them about the Herbalife products or Herbalife business. While we appreciate any interest expressed in our products and business opportunity, only the Company may grant interviews or authorize advertising of the company or product names. Only authorized officials of Herbalife are permitted to speak with or write to the press or other media for, or on behalf of, Herbalife or any of its subsidiaries. If a Distributor should be approached with a request for an interview or statement, advise the reporter to contact Herbalife. Likewise, Distributors are advised not to knowingly invite the press or media to an Herbalife meeting or event. Reporters should attend such an event accompanied by an authorized Herbalife representative.

**Rule No. 24 Sponsoring and Offering the Business Opportunity****Rule 24-A Franchises or Territories**

Herbalife does not have territories nor franchises. Herbalife provides an equal opportunity to all Distributors. As stated in Rule 8-A, no Distributor may represent or imply that there are exclusive franchises or territories available under the Herbalife Sales and Marketing Plan, when presenting or offering the business opportunity.

**Rule 24-B Offering the Business Opportunity**

When offering the business opportunity or presenting the Herbalife Sales and Marketing Plan, a Distributor:

- Must clearly indicate that the principle activity of a Distributor is to sell and distribute Herbalife products to Retail Customers and may not represent or imply that this is secondary to sponsoring or building the business.
- Must not imply or represent that a Distributor can benefit solely by the sponsoring of other Distributors.
- Must not imply that a Distributor is under any obligation to sponsor others to become Distributors.
- Must not imply that success may be achieved with little or no effort.
- Must not make any statements which are not accurate and truthful.

**Rule 24-C Income Statements and Claims**

When a Distributor promotes, offers or represents the earnings from his own or another Distributorship, he/she must at all times be truthful in his/her statements. It is necessary these claims can be verified.

**Rule 24-D Must Retail and Qualify to Earn**

A Distributor must clearly indicate that Royalty Overrides, Production Bonuses or other earnings of an Herbalife Distributorship may only be achieved through the continuing sales of Herbalife products to retail customers by himself and his sponsored Distributors and after certain qualifications have been met.


## RULES OF CONDUCT &amp; DISTRIBUTOR POLICIES

**Rule 24-E No Obligation to Purchase Product**

No Distributor may represent that there is any obligation to purchase products, literature or sales aids except for the Herbalife Distributor Kit (IBP), nor may he represent that Royalty Overrides, Production Bonuses or other benefits may be obtained solely from the purchase of products rather than the sale of products.

**Rule No. 25 Use of Trade Names, Trademarks and Logos****Rule 25-A Use of Trade Names, Trademarks and Logo**

It is not permissible to use Herbalife's trademarks, trade names, logos or any facsimile thereof in any way, without prior written consent by Herbalife. These belong exclusively to Herbalife which endeavors to protect the name Herbalife, the trademark, the trade names and designs of labels to prevent unauthorized use. Herbalife, or any of its subsidiaries, reserves the right to withdraw its consent at any time at its absolute discretion.

A trademark or logo is a proprietary name or symbol which Herbalife has the exclusive legal right to use. For example, the  **HERBALIFE**, symbol and the word "Herbalife" are Herbalife trademarks. A trademark also includes the name used for a Herbalife product, such as "Cell-U-Loss," "Thermojetics," etc.

A trade name is a business name which Herbalife has the exclusive right to use. Company names such as "Herbalife International" or "Herbalife of Canada, Ltd." are our legal trade names.

**Rule 25-B Business Cards, Stationery, Letterheads, Check Books**

Only the following information may be included on a Distributor's business cards, stationery, etc. that he produces himself:

The name "Herbalife" in plain block letters (not the Herbalife logo) followed by "Independent Distributor."

The Distributor's name, address, telephone, fax or e-mail number.

"Call me for products" or "Call me for business opportunity" or other advertisement that is in compliance with the Advertising and other Rules of Conduct.

Business cards, envelopes and stationery with the Herbalife logo are available for Distributors to purchase from Herbalife. Contact the Order Department for ordering information.

**Rule 25-C Addresses**

The Herbalife International World Headquarters address or the addresses of any Herbalife companies or offices may not be used by any Distributor.

**Rule 25-D Use of Herbalife Name in Advertising**

When advertising, Distributors may use the name Herbalife in the following manner:

"Herbalife Independent Distributor. Call me for products."  
(Name and phone number or E-mail Address.)

**or**

"Herbalife Independent Distributor. Call me for opportunity."  
(Name and phone number or E-mail address.)

For other approved advertisements that Herbalife provides, please call the Distributor Relations Department.

**Rule 25-E Producing the Herbalife Trademark or Logo**

A Distributor may not produce or procure from a source other than Herbalife any item bearing the name or logo of Herbalife or any of its trademarks or trade names.

**Rule 25-F Mark Hughes**

The name "Mark Hughes" may not be used in any form of advertisement.

**Rule 25-G Use of Herbalife Name in TV, Radio, Magazines or Newspapers**

The word "Herbalife" or the specific mention of any Herbalife products or pictures of products may not be used in any media advertisements, whether in print, audio or video, including but not limited to, newspapers, magazines, radio and television, other than as indicated in the rules for advertising.

**Rule No. 26 Copyright of Herbalife Material****Rule 26-A Copyright Infringement**

No Distributor or any other person may reproduce in whole or in part any printed material, audiocassettes, video and film recordings that have been produced by Herbalife unless given written authorization to do so by Herbalife. These materials are protected by copyright whether registered or unregistered and are considered proprietary to Herbalife.

**Rule 26-B Consent for Reproduction**

Distributors wishing to use full and exact reproductions of articles or materials contained in official Herbalife material such as the Herbalife Career Book, the *Product Brochure*, *Herbalife Journals*, *Herbalife Today*, audiotapes, videotapes or other literature, to be incorporated into presentations to their own Distributor organization or for informational purposes may do so only if they have received prior written approval from Herbalife to do so and that such reproduction is followed by this statement: Reproduced with the permission of Herbalife International. All rights to the Herbalife name and logo and any trade names or trademarks of Herbalife, are the property of Herbalife International and its subsidiaries or associated companies.

**Rule 26-C For Use Only with Herbalife business**

Distributors may use Herbalife produced literature or promotional material solely for the purpose of conducting their business as an Herbalife Distributorship.



## RULES OF CONDUCT &amp; DISTRIBUTOR POLICIES

**Rule No. 27 Non-Herbalife Sales Aids and Materials****Rule 27-A Development of Non-Herbalife Material**

Distributors may develop their own sales aids and materials for the purpose of building, training and motivating their own Distributor organization provided that the materials:

- Do not suggest or imply any specific level of income may be earned from the Herbalife business by following any specific method or system.
- Follow the Rules of Conduct and all other written rules and regulations of Herbalife.
- Do not become or are not perceived as an income generating enterprise that is being conducted instead of, or in conjunction with, the Herbalife Distributorship.

**Rule 27-B Promotion, Sale or Distribution of Non-Herbalife Produced Sales Aids or Materials**

No Distributor may display, promote or sell any non-Herbalife generated sales aids, materials or programs at meetings or other functions conducted by Distributors or by Herbalife, unless the meeting consists solely of the Distributor's organization.

Likewise a Distributor may not promote any non-Herbalife program, system or speaker, other than to his own downline Distributors.

The selling price of non-Herbalife produced materials to downline Distributors must be at a cost that is reasonable for the product being sold and comparable to similar such items.

Distributors are not permitted to sell or distribute any materials or sales tools that are not generated or distributed by Herbalife, to any Distributor other than their own downline organization.

A Distributor may distribute downline to the next status level that is equal to, or greater than, his own. To go below that status level, a Distributor must receive written authorization from that Distributor.

Distributors who sell or supply non-Herbalife produced sales aids and materials must provide a receipt for the purchase and must provide a 90-day money back guarantee.

**Rule 27-C Violation of Rules for Non-Herbalife Produced Sales Aids or Materials**

In the event that Herbalife determines that non-Herbalife produced sales aids and materials supplied by a Distributor, violate any applicable law or the Herbalife Rules of Conduct or other rules and regulations published by the company from time to time or impair the Herbalife business or damage its reputation, Herbalife reserves the right to instruct the Distributor to cease producing, supplying or distributing the sales aids and materials. If Distributors violate this rule, Herbalife is entitled to sanction the Distributor, including termination of the Distributorship and hold the Distributor responsible for any costs, losses, damages or other liabilities suffered by Herbalife and/or its Distributors as a result of the production or distribution of such material.

**Rule 27-D Lead-Generation and Direct Mail**

Some Distributors use lead-generation programs or direct mail to conduct their business. The Distributor must comply with all local, state and federal laws and the Herbalife Rules of Conduct as with any other method of conducting business.

## RULES OF CONDUCT &amp; DISTRIBUTOR POLICIES

**Enforcement Procedures****Introduction**

1. Complaint Procedure
2. Suspension of a Distributorship
3. Termination or Deletion of a Distributorship
4. Procedures for Appeal

**Enforcement Procedures****Introduction**

The Herbalife Rules of Conduct are in place to protect the business for all Distributors. Violations of these rules are considered extremely serious. Violations can have a significant negative impact on the business for all Distributors as well as negatively influence the opinion of government officials, the media or the public about Herbalife, its products and Distributors. Herbalife attempts to educate our Distributors as to appropriate ethical business practices. In the event of a violation, the Company attempts to correct the violation by counseling the Distributor. However, more severe measures may be required in more serious cases, including, but not limited to the following:

- Suspension of buying privileges
- Suspension of earnings
- Temporary or permanent suspension from the TAB Team Production Bonus
- Suspension from speaking at an Herbalife function
- Financial penalties or sanctions
- Termination or Deletion of the Distributorship

**1. Complaint Procedure**

- A. Upon learning of a violation of the Rules of Conduct or other rules and regulations, a Distributor must attempt to contact the Distributor in violation and advise him of the appropriate guidelines of the company and reference the section in the Rules of Conduct and discuss the matter with him/her. Advise the purpose of the rule and how the Distributor should correct his/her conduct.
- B. If the alleged violator shows by word or conduct that he is unwilling or refuses to cooperate, then the Distributor should report the violation to the company. This should be done in writing to Herbalife Distributor Relations, Ethics and Business Practices Department, stating the nature of the complaint and specific details to support your allegations, such as names, addresses and telephone numbers of all persons involved; dates, times, places, etc. It is important that the complainant gives specific details to prove the violation. Herbalife is not

able to investigate or take action on insinuations or speculative infringements. It may be helpful to include written statements from any other Distributors who may have direct knowledge of the violation and any other information that will assist with a thorough examination of the complaint. The written statement must be signed by the Distributor(s) reporting the violation and include their ID number. Anonymous complaints cannot be made the basis for disciplinary action.

- C. The Distributor reporting a violation of the Rules of Conduct should notify his upline Supervisor of the violation he has seen and advise him of the actions he's taken to attempt to correct the violation.
- D. Upon receipt of a complaint with sufficient details and facts, Herbalife will notify the appropriate Distributor(s) of the complaint and request an immediate response to the allegations. All parties will be afforded the opportunity to present evidence and argument in writing to the Company. Herbalife considers all complaint information to be strictly confidential.
- E. If the complaint and/or the response received do not have enough evidence to prove a violation has occurred, Herbalife may request additional information from any party.
- F. When Herbalife has received all information of the facts and circumstances related to the complaint, Herbalife shall determine whether there has been a violation of the Rules of Conduct or other rules and regulations.
- G. In its sole and absolute discretion, the Company may impose any remedy or sanction it determines best addresses the issue. Sanctions may include a warning, probation, suspension, fine or termination.
- H. Herbalife will issue a letter to the Distributor in violation, his Sponsor, his three upline royalty receiving Supervisors and in some cases his three upline Tab Team members. The letter will state the specific complaint, the penalty and the corrective action to be taken. In some cases, a time limit will be established to comply with the company's requests.
- I. If the Distributor in violation does not take the necessary corrective action, Herbalife will take further action against the Distributor as deemed appropriate and necessary.
- J. If Herbalife has determined a Distributorship is to be suspended or terminated the following procedures will apply.

## RULES OF CONDUCT &amp; DISTRIBUTOR POLICIES

**2. Suspension of a Distributorship**

A. The Distributorship of a violating Distributor may be placed in suspension at any time by Herbalife for any reported complaint with supporting facts or violation of the Rules of Conduct or any of Herbalife's Rules and Regulations. Suspension may include any or all of the following:

- Suspension of buying privileges
- Suspension of payment for Royalty Overrides
- Suspension of payment for Tab Team Production Bonus
- Suspension of awards or benefits, i.e., Vacations, Pins
- Suspension from Speaking at the Corporate Training Seminars or other meetings representing the Company for up to one year
- Prohibition from attending any Corporate Event, even if Distributor has qualified for this event.
- Suspension of any qualifications that may be in progress

B. Herbalife reserves the right to publish the violating Distributor's name, violation and penalty at its sole discretion.

**3. Termination or Deletion of a Distributorship**

- A. Herbalife maintains the right to terminate or delete a Distributorship at any time with or without giving prior notice whenever it deems this is the necessary and appropriate action.
- B. Termination means the complete cancellation of a Distributorship and revocation of the Distributor's right to conduct the Herbalife business. This includes cancellation of his right to receive any further income from the Distributorship whether accruing before or after the termination date. The termination is effective on the date indicated in the written notification from Herbalife to the Distributor.
- C. In cases of Dual Distributorships and other similar infringements, the Distributor may be allowed to continue as an Herbalife Distributor but must do so in the proper line of sponsorship, as determined by the Company in the application of the Rules of Conduct. In most cases, the downline lineage of the deleted Distributorship's organization will be moved to the rightful line of sponsorship, with the Distributor.
- D. Upon termination or deletion of a Distributorship for any cause pursuant to these rules, the Distributor will have no claim against Herbalife as a result of the termination or deletion.

**4. Procedures for Appeal**

If a Distributor wishes to appeal a decision reached by Herbalife in cases concerning suspension, monetary sanctions, termination or deletion of a Distributorship, the Distributor has 15 days from the date of receiving written notification from Herbalife advising of the decision, to submit additional information or facts he/she believes should be considered. If the request for appeal is not received within the allotted period of time, the request will be denied.

The Distributors involved in the dispute may provide evidence and additional proof they believe may be relevant to the decision by Herbalife. However, Distributors must advise why this information was not provided during the initial investigation.

Herbalife will advise the Distributors in writing of the results of their appeal. This decision does not create liability on the part of Herbalife to pay compensation to the Distributor for loss of profits or goodwill.